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Supreme Court of the United States

ROBERT CONTINI; JOHN BARNES; JOHN KROMMENHOEK; RICHARD MULLER; JERRY MCCORMICK; LAWRENCE MCDERMOTT; JOHN DOE (name being fictitious); TEAMSTERS LOCAL 641 PENSION FUND; PETER VAN LENTEN; ROBERT CIRONE, as Trustee of the Teamsters Local 641 Pension Fund; THOMAS FLANNERY, Trustee of the Teamsters Local 641 Pension Fund,

Petitioners,

vs.

STANLEY SMITH,

Respondent.

Petition for a Writ of Certiorari to the United States Court of Appeals for the Third Circuit

PETITION FOR A WRIT OF CERTIORARI

GARY A. CARLSON *
LYNCH MARTIN KROLL
300 Executive Drive, Suite 010
West Orange, New Jersey 07052
(973) 243-0100

* Counsel of Record

Counsel for Petitioners

WILSON-EPES PRINTING CO., INC. – (202) 789-0096 – WASHINGTON, D. C. 20001

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QUESTIONS PRESENTED

Do the minimum vesting standards set forth in Section 203 of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), 29 U.S.C. § 1053, apply to pro-rata pension benefits?

May an employee pension benefit plan disregard, for vesting purposes, an employee's years of service with an employer during the period of time when that employer did not maintain the plan or a predecessor plan?

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PETITION FOR WRIT OF CERTIORARI

Petitioners, the trustees and administrator of Teamsters Local 641 Pension Fund, and the Teamsters Local 641 Pension Fund (collectively, the "Local 641 Fund"), request that a writ of certiorari be issued to review the judgment and opinion of the United States Court of Appeals for the Third Circuit in this case.

OPINIONS BELOW

The opinion of the Third Circuit is reported at *Smith v. Contini*, 205 F. 3d 597 (3d Cir. 2000) (App. A). The opinion and order of the District Court in *Smith v. Contini*, Civ. No. 97-2692 (WHW) (D.N.J. April 9, 1999) are not published (App. D and App. E).

STATEMENT OF JURISDICTION

The judgment of the Third Circuit was entered on March 9, 2000 (App. B). The amended judgment of the Third Circuit was entered on April 3, 2000 (App. C). The Third Circuit denied a timely petition for rehearing on April 10, 2000 (App. F).

The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

STATUTE INVOLVED IN THIS CASE

ERISA §203, 29 U.S.C. §1053, provided in part that

> (a) Each pension plan shall provide that an employee's right to his normal retirement benefit is nonforfeitable upon the attainment of normal retirement age and in addition shall satisfy the requirements of paragraphs (1) and (2) of this subsection.
>
> (1) A plan satisfies the requirements of this paragraph if an employee's rights in his accrued

benefit derived from his own contributions are nonforfeitable.

(2) A plan satisfies the requirements of this paragraph if it satisfies the requirements of subparagraph (A), (B), or (C).

(A) A plan satisfies the requirements of this subparagraph if an employee who has completed at least 10 years of service has a nonforfeitable right to 100 percent of the employee's accrued benefit derived from employer contributions.

* * * *

(b) (1) In computing the period of service under the plan for purposes of determining the nonforfeitable percentage under subsection (a)(2) of this section, all of an employee's years of service with the employer or employers maintaining the plan shall be taken into account, except that the following may be disregarded:

* * * *

(C) years of service with an employer during any period for which the employer did not maintain the plan or a predecessor plan, defined by the Secretary of the Treasury;[1]

---

[1] The version of the portions of ERISA § 203(a), 29 U.S.C. § 1053(a) set forth above was in effect at all times relevant to Respondent's application for benefits. The Small Business Job Protection Act of 1996, Pub. L. No. 104-188, § 1442, 110 Stat. 1755, 1808 (1996) amended ERISA § 203(a), 29 U.S.C. § 1053(a), to establish a five-year vesting requirement for multiemployer pension plans.

The vesting standards for pension plans are also set forth in I.R.C. § 411.

STATEMENT OF THE CASE

The Local 641 Fund plan is a multiemployer defined benefit employee pension plan. Participants in the plan may become eligible for one of several types of pensions, including a regular pension, an early retirement pension, a supplemental pension, a service pension, a deferred pension, a disability pension, or a pro-rata pension. The eligibility requirements for each type of pension are specified in the plan document and the summary plan description.

Pro-rata pension benefits are designed for employees whose years of employment have been divided between employment covered by the Local 641 Fund's plan and employment covered by one or more plans with which the Local 641 Fund has a reciprocal agreement. Pro-rata pension benefits are for employees who have not worked long enough in employment covered by the Local 641 Funds's plan to be vested. To be eligible for pro-rata pension benefits, an employee must have earned a total of 15 years (or 60 quarters) of pension credits, divided between employment covered by the Local 641 Fund's plan and employment covered by one or more reciprocating plans.

Respondent, Stanley Smith, was employed as a driver in a series of jobs where he was represented by three local unions of the International Brotherhood of Teamsters, and as such was covered by three employee pension benefit plans. For approximately nine months in 1965, he was employed by Nassau Suffolk Frozen Foods, Inc. at its terminal in Bronx, New York, where he was represented by Teamsters Local 202 and covered by the Teamsters Local 202 pension plan. He eventually obtained regular employment with Eastern Express, at its terminal in Manhattan, where he was represented by Teamsters Local 816 and covered by the Teamsters Local 816 pension plan. When Eastern Express relocated the ter-

minal from Manhattan to Elizabeth, New Jersey, in approximately 1973, Smith continued his employment with Eastern Express, at the Elizabeth terminal. Teamsters Local 641 soon replaced Teamsters Local 816 as the collective bargaining representative for the drivers at the terminal, including Smith, and accordingly, those drivers become participants in the Local 641 Fund's plan. Eastern Express ceased to operate in May, 1977, and consequently Smith's employment by Eastern Express ended at that time.

Smith submitted an application for benefits, dated November 11, 1993, to the Local 641 Fund. Based upon the information contained in his application, and information obtained from the Teamsters Local 202 pension plan and the Teamsters Local 816 pension plan, with which the Local 641 Fund had reciprocal agreements, the Local 641 Fund determined that Smith had earned a total of 44 quarters, or 11 years, of combined pension credits. It determined, in particular, that he earned two quarters in the Local 202 plan, 26 quarters in the Local 816 plan, and 16 quarters in the Local 641 Fund's plan. Because Smith had earned less than the 15 years of combined pension credits required for a pro-rata pension, the Local 641 Fund concluded that Smith was not eligible for pro-rata pension benefits from the Local 641 Fund.[2]

Smith filed a complaint in District Court by which he sought pension benefits from the Local 641 Fund based upon eleven years of pension credits. The District Court had jurisdiction over the action pursuant to ERISA § 502(e)(1), 29 U.S.C. § 1132(e)(1), ERISA § 502(f), 29 U.S.C. § 1132(f), and 28 U.S.C. § 1331. The District Court dismissed the complaint. It held that the provisions in the Local 641 Fund's plan pertaining to pro-rata pensions do not violate ERISA's

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[2] Smith had earned 16 quarters of credit in employment covered by the plan of the Local 641 Fund, and thus his accrued benefit in the plan of the Local 641 Fund was not vested.

minimum vesting standards, and that the Local 641 Fund could disregard years of service performed for an employer during the period when the employer did not maintain the Local 641 Fund's plan or a predecessor plan.

Smith filed a timely appeal with the Third Circuit. On March 9, 2000, the Third Circuit issued its Opinion and Judgment, reversing the part the District Court. The Third Circuit held that the Local 641 Fund's plan was not in compliance with ERISA's minimum vesting standards to the extent that the plan required that a participant must accumulate at least 15 combined pension credits to be eligible for a pro-rata pension. The Third Circuit denied the Local 641 Fund's request for rehearing on April 10, 2000.

REASONS FOR GRANTING THE WRIT

The Third Circuit has resolved, incorrectly, an important question of federal law that has not been, but should be, settled by this Court. Pro-rata pension benefits, by definition, are for employees who are not vested, because they have not worked long enough in employment covered by a particular plan to satisfy the vesting requirement. The Third Circuit has decided that ERISA's minimum vesting standards should apply to pro-rata pension benefits. The holding of the Third Circuit, if left undisturbed, will increase the amount of pro-rata pension benefits, to the detriment of multiemployer employee pension benefit plans and at the expense of plan participants with substantial periods of employment covered by those plans.

ARGUMENT 1

THE THIRD CIRCUIT'S HOLDING ALTERS ERISA'S MINIMUM VESTING STANDARDS

Congress enacted ERISA, a "comprehensive and reticulated statute," after having studied private pension plans for almost a decade. *Nachman Corp. v. Pension Benefit*

Guaranty Corp., 446 U.S. 359, 361 (1980). The content of vesting schedules had been a particularly contentious issue during the drafting of the legislation. M. Gordon, *Introduction: The Social Policy Origins of ERISA*, in Amer. Bar Ass'n, *Employee Benefits Law* xxvi-xxix (1991). Vesting schedules were set forth in ERISA § 203(a), 29 U.S.C. §1053(a), described by this Court as "a central provision in ERISA". *Nachman Corp., supra* at 367 n. 10. Congress has changed the vesting requirements on several occasions.

In its Opinion, the Third Circuit observed that "we seem not to have had the opportunity to address the specific question presented in this appeal" (App. A at 9a). Indeed, no Court of Appeal had addressed this question, which was, and is, whether ERISA's minimum vesting standards apply to pro-rata pension benefits. [3]

This is a very important issue. Many multiemployer pension plans provide pro-rata pension benefits. S. Bruce, *Pension Claims, Rights and Obligations* 141 (2d ed. 1993). Those plans no doubt require that a participant earn more than ten combined pension credits to be eligible for pro-rata pension benefits. In holding that pro-rata pension benefits are vested, the Third Circuit has extended the reach of ERISA's minimum vesting standards, to create a new vesting regime, different from the one that Congress has so carefully crafted. In so doing, the Third Circuit has increased the number of participants who are entitled to receive pro-rata pension benefits.[4] Many of those participants will receive relatively

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[3] There appears to be only one other case in which a court has ruled upon the issue, *Helms v. Local 705 Int'l B.hd. Teamsters Pension Plan*, 1999 WL 965230 (N.D. Ill. Sept. 30, 1999), mentioned in the Third Circuit's Opinion (App. A at 13a).

[4] As mentioned above, in note 1, the minimum vesting requirement is now five years. Therefore, in accordance with the Third Circuit's holding in this case, a participant with five years of combined pension credits can be entitled to pro-rata pension benefits.

small benefit payments, because they have earned relatively few pension credits. The amounts paid to the newly-eligible participants will ultimately impact upon other participants, because the plans will be unable to increase benefits, to the extent that the plans must fund the benefits available to the newly-eligible participants. The Third Circuit has changed the actuarial calculus. *See, e.g., Central States Pension Fund v. Gerber Truck Service, Inc.*, 870 F.2d 1148, 1154 (7th Cir. 1989) (en banc) ("[P]ension and welfare plans are insurance vehicles. Insurers *depend* on receiving contributions from persons who collect far in the future or not at all [emphasis in original] . . . . [M]any persons who work in the industry, and have contributions made on their behalfs, will never collect because they do not satisfy the vesting rule (they may quit or die before doing so)".

The case is important, not only because the Third Circuit misapplied ERISA's minimum vesting standards to pro-rata pension benefits, but also because its holding can have a detrimental impact upon the Local 641 Fund, other multiemployer pension plans, and plan participants.

ARGUMENT 2

THE THIRD CIRCUIT HAS DISREGARDED AN IMPORTANT COMPONENT OF ERISA'S MINIMUM VESTING STANDARDS

In applying minimum vesting standards to pro-rata pension benefits, the Third Circuit has sacrificed ERISA § 203(b)(1)(C), 29 U.S.C. §1053(b)(1)(C). That statute provides that a plan may disregard for vesting purposes an employee's "years of service with an employer during any period for which the employer did not maintain the plan or a predecessor plan, defined by the Secretary of the Treasury." In the present case, for purposes of determining whether Smith's benefit in the plan of the Local 641 Fund was vested,

the Local 641 Fund took into account Smith's four years of service with Eastern Express, as an employer maintaining the plan of the Local 641 Fund, and, as permitted by ERISA § 203(b)(1)(C), 29 U.S.C. § 1053(b)(1)(C), disregarded the six years of service with Eastern Express during which Eastern Express did not maintain the plan of the Local 641 Fund. (During that time it maintained the Local 816 pension plan).[5]

The Third Circuit rejected the Local 641 Fund's reliance upon ERISA § 203(b)(1)(C), 29 U.S.C. § 1053(b)(1)(C). The Third Circuit explained that "[t]he underling policy goal of ERISA is the protection of retirement benefits" (App. A at 12a). This reason is not persuasive: a statutory provision cannot be disregarded for the sake of advancing "an underlying policy goal". By the same token, the minimum vesting standards as set forth in ERISA § 203, 29 U.S.C. § 1053, including ERISA § 203(b)(1)(C), 29 U.S.C. 1053(b)(1)(C), serve to effectuate ERISA's goal of protecting pension benefits. The courts may prefer different vesting standards, but it is for Congress, not the courts, to change ERISA's vesting standards, and then perhaps only after it carefully considers the actuarial and financial impact upon pension plans of any contemplated change.

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[5] Smith's benefit in the plan of the Local 641 Fund was not vested, because he had only four years of service in employment covered by the plan. To be vested, he needed, in accordance with ERISA § 203(a)(2)(A), 29 U.S.C. § 1053(a)(2)(A), a minimum of ten years of service in employment covered by the Local 641 Fund's plan.

CONCLUSION

Whether ERISA's minimum vesting standards should apply to pro-rata pension benefits is a question of exceptional importance. It should therefore be settled by this Court. The Local 641 Fund respectfully requests that this petition for a writ of certiorari be granted.

Respectfully submitted,

GARY A. CARLSON *
LYNCH MARTIN KROLL
300 Executive Drive, Suite 010
West Orange, New Jersey 07052
(973) 243-0100

* Counsel of Record

Counsel for Petitioners

APPENDIX A

[Filed March 9, 2000]

UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

No. 99-5293

STANLEY SMITH,

Appellant

v.

ROBERT CONTINI; JOHN BARNES; JOHN KROMMENHOEK; RICHARD MULLER; JERRY MCCORMICK; LAWRENCE MCDERMOTT; JOHN DOE (name being fictitious); TEAMSTERS LOCAL 641 PENSION FUND; PETER VAN LENTEN; ROBERT CIRONE, as Trustee of the Teamsters Local 641 Pension Fund; THOMAS FLANNERY, Trustee of the Teamsters Local 641 Pension Fund

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On Appeal from the United States District Court
for the District of New Jersey
(D.C. Civ. No. 97-2692)
District Judge: Hon. William H Walls

Argued January 25. 2000

BEFORE: GREENBERG, ROTH, and ROSENN,
Circuit Judges

(Filed: March 9, 2000)

OPINION OF THE COURT

GREENBERG. Circuit Judge.

I. INTRODUCTION

This matter is before the court on an appeal by Stanley Smith in this Employee Retirement Income Security Act ("ERISA"), 29 U.S.C. §§ 1001 et seq., benefits case.[1] Smith filed a complaint in the district court on May 23, 1997, after the defendants denied him retirement benefits. Smith asserted that defendants' construction of the pension plan they managed violated ERISA and thus he brought this action seeking an injunction and other appropriate equitable relief to bring their construction of the plan into compliance with the statute. Of course, his ultimate goal is to obtain a pension.

The Teamsters Local 641 Pension Fund (the "Local 641 Fund") plan is a multiemployer, defined benefits pension plan within the meaning of 29 U.S.C. § 1002(2)(A)(37). The individual defendants are trustees and officers of the Local 641 Fund who, by virtue of their positions, owe a fiduciary duty to Smith and the other beneficiaries of the Local 641 Fund plan.

The Local 641 Fund plan provides an array of retirement benefits to employees covered by the plan. As is relevant herein, the Local 641 Fund pension plan provides for two

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[1] The district court exercised jurisdiction pursuant to 28 U.S.C. § 1331 and 29 U.S.C. §1132(e)(1) and (f). We have jurisdiction pursuant to 28 U.S.C. § 1291. The defendants assert that the case is not ripe for appellate review because the district court granted summary judgment "dismissing the complaint" and not dismissing the action. *See* Appellee Br. at 12 (citing *Newark Branch. N.A.A.C.P. v. Harrison*, 907 F.2d 1408. 1416 (3d Cir. 1990)). While it is true that the dismissal of a complaint without prejudice in some circumstances may not be a final and appealable order because a court can grant leave to amend a complaint even after dismissal, *see id.* at 1416. In this case the district court did not dismiss the complaint without prejudice and it did not grant leave to amend. Moreover, Smith has stood on his complaint. *See Shapiro v. UJB Fin. Corp.*, 964 F.2d 272, 278 (3d Cir. 1992). Thus, we have jurisdiction.

types of benefits to covered employees upon their reaching their normal retirement age. The first, a "Deferred Pension," is available to employees who accumulate at least ten years of vesting service under the Local 641 Fund. *See* Local 641 Fund plan § 3.15, app. at 27. The second, A "Pro-rata Pension," is available to certain employees who have been members of other Teamsters locals, but did not attain a minimum of ten years of employment with employers within the jurisdiction of the Local 641 Fund so as to qualifv for a Deferred Pension. The Local 641 Fund entered into reciprocal agreements with the pension funds of other locals to provide for Pro-rata Pensions to certain employees who then could accumulate service credits in more than one fund so as to qualify for a pension.

With respect to its Pro-rata Pension provisions. the Local 641 Fund plan provides:

> The Fund has a number of reciprocal agreements with other pension funds under which service in the jurisdiction of any of the reciprocating funds is considered as service under this Fund for the purpose of determining eligibility for benefits under the Fund.
>
> * * * *
>
> If an employee would meet the eligibility rules under this Plan if his Related Credit was considered, but does not meet the eligibility rules of the last Fund in whose jurisdiction he worked, a Pro-rata pension based on the time worked under this Plan only will be payable even if the Employee has less than 10 Pension Credits under this Plan.

Local 641 Fund plan §3.21, app. at 28.

Generally, the Local 641 Fund plan calculates a Pro-rata Pension based on the amount of the pension to which an employee would have been entitled under the Local 641 Fund plan if he had earned all of his combined pension credits

under the jurisdiction of the Fund. *See* Local 641 Fund plan, Addendum A, app. at 37. The Local 641 Fund then pays a pro-rata share, or percentage, of the pension to the employee that equals the percentage of the combined pension credits earned by the employee within the jurisdiction of the Local 641 Fund. *See id.*[2] Under this plan, however, a Pro-rata Pension generally is paid only to those employees who had earned a minimum of 15 years of combined service credits. *See id.* at 28.

As is relevant here, the Local 641 Fund maintains reciprocal agreements with the Teamsters Local 202 Fund and the Teamsters Local 816 Fund. Under these agreements, the Local 641 Fund agreed to apply service credits earned by employees with the Local 202 and 816 Funds toward service credits earned in the Local 641 Fund plan.

Smith, who was employed as a truck driver, earned two quarters of service credits with the Local 202 Fund between May and December 1966. From February of 1967 through December of 1973, Smith was employed by Eastern Express, Inc. ("Eastern Express") in New York City. earning 26 quarters of service credits with the Local 816 Fund. Then Eastern Express moved to Elizabeth, New Jersey, and its employees came under the jurisdiction of the Local 641 Fund. Smith, whom Eastern Express continued to employ after the move, earned 16 quarters of service credits with the Local 641 Fund between January 1974 and May 1977.

Pursuant to its reciprocal agreements with the Local 202 and 816 Funds, the Local 641 Fund accepted the service credits Smith had earned within the jurisdiction of those funds. Thus, when Smith terminated his covered employment in 1977, he had earned a total of 44 service credits (the equivalent of 11 years)—42 service credits (ten and one-half years) as an Eastern Express employee.

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[2] Apparently the employee obtains the full pension from all of the funds, but we are not certain as to the mechanics of the program.

On November 11, 1993. Smith. having turned 65, applied for a pension from the Local 641 Fund. By letter dated June 21, 1994, the Local 641 Fund acknowledged that Smith had earned 11 years of service credits, but informed him that he needed 15 years of service credits before he could receive pension benefits. *See id.* at 85. Smith appealed this decision on the ground that the Fund could require only ten, not 15, years of service before an employee was guaranteed pension benefits. The Fund denied Smith's appeal by a letter dated September 22. 1994. *See id.* at 86.

Smith then brought this suit in the district court under 29 U.S.C. § 1132(a)(3), alleging that the defendants' adherence to the 15-year service credit requirement was contrary to ERISA and constituted a breach of their fiduciary duty. In particular, Smith sought a declaration that the defendants had breached their fiduciary duties and an order enjoining them to conform the rules and regulations of the Local 641 Fund plan to ERISA's maximum ten-year vesting requirement. *See* app. at 7. He also sought restitution by the award of a pension.

Ultimately, after proceedings that we need not describe, the parties filed cross-motions for summary judgment. By an opinion and order dated April 8, 1999, the district court denied Smith's motion but granted the defendants' motion. *See Smith v. Contini,* No. 97-2692 (D.N.J. Apr. 8, 1999). In its opinion, the district court examined the Local 641 Fund's pension plan and determined it complied with ERISA guidelines. The court noted that the ERISA provision Smith thought applicable to this case. 29 U.S.C. § 1053(a)(2)(A), required plans to provide that an employee's right to his normal retirement benefit be nonforfeitable upon the attainment of his normal retirement age. provided that the employee have at least ten years of qualifying service. *See id.* at 9-10. But the court determined that the Deferred Pension offered by the Local 641 Fund plan complied with ERISA's vesting provisions. *See id.* at 10-11.

The district court also noted that the Local 641 Fund plan provided a pension for those employees who had performed less than ten years of vesting service within the jurisdiction of the Local 641 Fund, but who had accumulated service credits with a reciprocating fund. *See id.* But under the reciprocal pension, an employee would not receive any benefits unless he had a minimum of 15 years of combined service within the jurisdiction of the various reciprocating funds. *See id.* It is undisputed that Smith did not meet that threshold.

The district court concluded that the Pro-rata Pension offered by the Local 641 Fund pursuant to its reciprocity agreements with other funds was not governed by ERISA's ten-year vesting requirements. *See id.* at 11. The court stated:

> Defendants are correct in their argument that ERISA does not require them to provide pro-rata pensions or reciprocal agreements with other funds. Under 29 U.S.C. § 1053(b)(1), defendants may disregard years of service performed for an employer during a period in which that employer did not maintain a pension plan with the Local 641 Fund or a predecessor plan. The pro-rata provisions in the Local 641 Fund's pension plan do not violate the vesting requirements of ERISA, 29 U.S.C. § 1053(a)(2). Because neither the pro-rata provisions nor the vesting schedule of the Local 641 Fund's pension plan violate ERISA, defendants' motion for summary judgment to dismiss the complaint is granted.

Id. at 11.

In addition to contending that the Pro-rata Pension was subject to a ten-year maximum vesting requirement, Smith argued that the Local 641 Fund should recognize his ten and one-half years of service with Eastern Express as vesting service under its plan, thereby entitling him to a Deferred Pension. The district court found that "[a]lthough plaintiff's

argument may have merit, the Court may not consider it at this point because it deals with the application of the terms of the pension plan to plaintiff, not whether the terms of the pension violate ERISA. The Court may not consider this argument. unless and until plaintiff brings an action under 29 U.S.C. § 1132(a)(1)(B) to challenge his denial of benefits under the Local 641 Fund's pension plan." *See id.* at 12. Smith appeals.

II. DISCUSSION

We exercise plenary review with respect to the district court's decision on the cross-motions for summary judgment. *See Seibert v. Nusbaum, Stein, Goldstein, Bronstein & Compeau*, 167 F.3d 166, 170 (3d Cir. 1999); *Petruzzi's IGA Supermarkets, Inc. v. Darling-Delaware Co.*, 998 F.2d 1224, 1230 (3d Cir. 1993). We will affirm only if we conclude that the pleadings, depositions, answer to interrogatories and admissions on file, together with the affidavits, show that the defendants were entitled to judgment as a matter of law on the basis of the undisputed facts. *See* Fed. R Civ. P. 56(c).

We start our discussion of the issues by recognizing that ERISA neither mandates the creation of pension plans nor in general dictates the benefits to be afforded once a plan is created. *See Dade v. North American Philips Corp.*, 68 F.3d 1558, 1561 (3d Cir. 1995) (*citing Hlinka v. Bethlehem Steel Corp.*, 863 F.2d 279, 283 (3d Cir. 1988); H.R. Rep. No. 93-807. 93d Cong., 2d Sess., reprinted in 1974 U.S.C.C.A.N. 4670, 4677). Thus, ordinarily only the plan can create an entitlement to benefits. Consequently, "we are required to enforce the Plan as written unless we can find a provision of ERISA that contains a contrary directive." *Dade*, 65 F.3d at 1562.

One of the areas in which ERISA requires express provisions in benefit plans concerns the nonforfeitability,

often referred to as "vesting," of normal retirement benefits[3] payable to an employee who reaches the normal retirement age.[4] In this regard, ERISA section 203(a). 29 U.S.C. § 1053(a). provides in relevant part:

> Each pension plan shall provide that an employee's right to his normal retirement benefit is nonforfeitable upon the attainment of normal retirement age and in addition shall satisfy the requirements of paragraphs (1) and (2) of this subsection.
>
> (1) A plan satisfies the requirements of this paragraph if an employee's rights in his accrued benefit derived from his own contributions are nonforfeitable.
>
> (2) A plan satisfies the requirements of this paragraph if it satisfies the requirements of subparagraph (A), (B), or (C).
>
> (A) A plan satisfies the requirements of this subparagraph if an employee who has completed at least 10 years of service has a nonforfeitable right to 100 percent of the employee's accrued benefit derived from employer contributions.[5]

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[3] ERISA defines normal retirement benefits as "the greater of the early retirement benefit under the plan, or the benefit under the plan commencing at normal retirement age." 29 U.S.C. § 1002(22).

[4] ERISA allows the normal retirement age to be defined by the plan or sets the age as the later of the time a plan participant reaches the age of 65 or reaches his or her fifth anniversary of participation in the plan. *See* 29 U.S.C. § 1002(24), The parties do not dispute that Smith had attained the normal retirement age at the time he requested benefits under the Local 641 Fund.

[5] The ten-year vesting requirement we set forth reflects the version of ERISA section 203 in effect at all times relevant to the instant appeal. Because the Local 641 Fund plan was ratified before March 1, 1986, the parties agree that the current vesting limits do not apply.

The minimum vesting standards to which an employee benefit plan is obligated to adhere are based upon "years of service" as defined in ERISA section 203(b)(1). That section provides:

> In computing the period of service under the plan for purposes of determining the nonforfeitable percentage under subsection (a)(2) of this section, all of an employee's years of service with the employer or employers maintaining the plan shall be taken into account, except that the following may be disregarded:
>
> * * * *
>
> (C) years of service with an employer during any period for which the employer did not maintain the plan or a predecessor plan defined by the Secretary of the Treasury

29 U.S.C. § 1053(b)(l).

Defendants successfully argued in the district court that the Pro-rata Pension provided by the Local 641 Fund plan to an employee who had not earned the requisite ten years of service credit under its plan was not subject to the ERISA ten-year vesting requirement even though the employee overall had more than ten years of service credits. Thus, they assert on this appeal that "ERISA's minimum vesting standards [*i.e.*, 29 U.S.C. § 10531 do not apply to pro-rata pension benefits." *See* Appellees Br. at 24. In support of this argument, defendants cite ERISA section 203(b)(1)(C), 29 U.S.C. § 1053(b)(1)(C), quoted above, for the proposition that years of service earned under other plans may be disregarded for the purposes of vesting. *See id.* at 19-20.

While we seem not to have had the opportunity to address the specific question presented on this appeal, in *Hoover v. Cumberland, Maryland Area Teamsters Pension Fund*, 756 F.2d 977 (3d Cir. 1984), in an analysis instructive here, we

did consider whether pro-rata pensions were subject to other limitations imposed by ERISA. In *Hoover*, the plaintiffs, as members of Teamsters Local 453, participated in the Cumberland Fund, a multiemployer pension plan established by the local union and employers engaged in collective bargaining with the local. *See id.* at 979. The Cumberland Fund was a qualified plan subject to the vesting, funding, and participation requirements of the Internal Revenue Code of 1954 and ERISA. *See id.* Starting in 1967, the trucking companies employing the plaintiffs began moving their terminals to Pittsburgh, Pennsylvania, because of changes in interstate highway routes. *See id.* The drivers affected by these relocations. including the plaintiffs, moved with their employers to Pittsburgh and transferred to Teamsters Local 249 whose members participated in the Western Pennsylvania Teamsters and Employers Pension Fund (the "Western Fund"). As a result of the move, these drivers terminated their participation in the Cumberland Fund and joined the Western Fund, although the same company continued to employ them and they remained members of the same international union. *See id.*

Responding to the disruption in local union jurisdiction and pension fund affiliation, a number of teamster pension funds prepared a reciprocal agreement which the trustees of the Cumberland Fund signed in 1968. *See id.* The purpose of the reciprocal agreement was to provide full pensions for workers with continuous membership in the international union, but who, because of transfers to different locals. might not accrue sufficient work credit under any one plan to entitle them to full pension benefits. *See id.* at 979-80. Under the reciprocal agreement, a union member who transferred from the Cumberland Fund to the Western Fund could cumulate his service credit from each fund, and if his total combined service credit was sufficient on retirement, he would receive proportional pension benefits from each fund. *See id.* at 980. The reciprocal agreement did not specify a particular benefit

rate, but rather required each fund to include in its plan documents a method for calculating the partial pensions. *See id.* The trustees of the Cumberland Fund triggered the dispute in *Hoover* by amending the plan in a way that reduced the pensions payable from the level in effect prior to the amendment.

In response to the amendment, the *Hoover* plaintiffs brought their suit alleging violations of ERISA section 204(g). 29 U.S.C. § 1054(g). *See Hoover*, 756 F.2d at 981. Section 204(g) states that the "accrued benefit of a participant under *a plan* may not be decreased by an amendment of the plan, other than an amendment described in section [302(c)(8)]." 29 U.S.C. § 1054(g)(1) (emphasis added). Thus, we indicated in *Hoover* that "the focus of our inquiry is whether the partial pension benefits [under the reciprocal agreement involved in that case] qualif[ied] as accrued benefits within the meaning of that term under ERISA" so that section 204(g) precluded their reduction. *See Hoover*, 756 F.2d at 981.

A reading of both the Cumberland Fund plan and the legislative history of ERISA led us to conclude that the plaintiffs' partial pension benefits earned pursuant to reciprocity clauses satisfied ERISA's definition of an accrued benefit. *See id.* at 982. Accordingly, we determined that pension benefits provided pursuant to the reciprocity agreements were subject to the section 204(g) amendment limitations. *See id.* It was inherent in our determination that the benefits provided pursuant to the reciprocity agreements were provided under a covered plan for purposes of ERISA because the restriction in ER1SA section 204(g), 29 U.S.C. § 1054(g), is only on amendments of a plan as ERISA defines that term.

ERISA section 203(a) is similar to the ERISA provision at issue in *Hoover* because it sets forth nonforfeitability requirements for pension *plans*. *See* 29 U.S.C. § 1053(a). As

in *Hoover*, we hold that the benefits provided to employees pursuant to the Pro-rata Pension provisions of the Local 641 Fund plan are provided in a pension plan within the meaning of ERISA. *See* 29 U.S.C. § 1002(2)(A) (defining pension plan as any plan, fund or program that provides retirement income to employees regardless of the method of calculating contributions, benefits or method of distributing benefits). Accordingly, the Pro-rata Pension is subject to the vesting requirements set forth in ERISA section 203 and thus an employee must be provided with a nonforfeitable right to his normal retirement benefit if the employee has completed ten years of service. *See* ERISA section 203(a)(2)(A), 29 U.S.C. § 1053(a)(2)(A).

Defendants' argument that the vesting requirements of ERISA are not applicable here because the Local 641 Fund was not required to provide its employees with a Pro-rata Pension is misplaced. As we mentioned, a plan is not required to provide any particular benefits to its employees and thus the ERISA provisions become applicable only after benefits are provided. *See Dade*, 68 F.3d at 1562. The Pro-rata Pension provision here seeks to provide normal retirement benefits to plan participants who reach normal retirement age. ERISA sets forth clear vesting requirements for the provision of such benefits. *See* ERISA section 203(a), 29 U.S.C. § 1053(a).

Defendants argue, however, that even if ERISA section 203(a) is found to be applicable, section 203(b)(l)(C) allows the Local 641 Fund to disregard service with an employer for any period in which the employer did not maintain the Local 641 Fund plan. We reject this argument. The underlying policy goal of ERISA is the protection of retirement benefits. Congress's chief purpose in enacting the statute was to ensure that workers receive promised pension benefits upon retirement. *See Nachman Corp. v. Pension Benefit Guaranty Corp.*, 446 U.S. 359, 375, 100 S.Ct. 1723, 1733 (1980). In

constructing ERISA Congress perceived the statute's accrual and vesting provisions as being at the heart of that protection. *See Hoover*, 756 F.2d at 985.

> Unless an employee's rights to his accrued pension benefits are nonforfeitable, he has no assurance that he will ultimately receive a pension. Thus, pension rights which have slowly been stockpiled over many years may suddenly be lost if the employee leaves or loses his job prior to retirement. Quite apart from the resulting hardships, . . . such losses of pension rights are inequitable, since the pension contributions previously made on behalf of the employee may have been made in lieu of additional compensation or some other benefit which he would have received.

S. Rep. No. 93-383. 93d Cong., 2d Sess., reprinted in 1974 U.S.C.C.A.N. 4890, 4930.

Although the concepts of accrued benefits and vested benefits are distinct, the concerns expressed by this court in *Hoover* have force here. In fact, a district court, relying on the reasoning of *Hoover*, recently determined that the vesting requirements set forth in ERISA section 203 applied to service credits earned pursuant to reciprocity clauses. *See Helms v. Local 705 Int'l Bhd. Of Teamsters Pension Plan*, 1999 WL 965230, at *10-12 (N.D. Ill. Sept. 30, 1999) (finding that plan that offered both a standard deferred pension and a pension based upon reciprocity agreements was required to adhere to ERISA's vesting provisions for both pensions). This conclusion is consistent with our reasoning in *Hoover* and with the concerns expressed by Congress regarding the protection of accrued benefits and vested rights.

The establishment of reciprocal pension agreements promotes transfers of employees between employers within funds that are parties to reciprocity agreements and provides the employees with the apparent security that they will

receive a pension based upon their combined years of service. *See Helms*, 1999 WL 965230. at *12. It would be inconsistent with the purpose of ERISA to allow funds to promote movement by employees in these circumstances while at the same time subjecting such employees to penalties for having so moved.

Further, by opting to provide pension benefits based upon years or service earned under other funds, the Local 641 Fund chose not to avail itself of the provisions of ERISA section 203(b) for the purposes of the Pro-rata Pension. Section 203(b) is permissive in that it states that a plan *may* disregard service with an employer during any period in which the employer did not maintain the plan. *See* 29 U.S.C. § 1053(b)(1)(C). Thus, ERISA does not require a plan to disregard such service. Having chosen to provide a pension plan expressly based upon years of service earned with certain employers not within the Local 641 Fund jurisdiction, the Local 641 Fund is barred from disregarding those years of service for the purposes of vesting under ERISA Section 203(a).

We reiterate that we agree with the defendants and the district court that the defendants were under no obligation under ERISA to provide for reciprocal agreements and Pro-rata Pensions. Nevertheless, once having made the determination to provide for such pensions, the defendants were obliged to formulate a plan providing for vesting in accordance with ERISA section 203(a)(2)(A), 29 U.S.C. § 1053(a)(2)(A). Thus, this case represents a situation, not unusual in the law, that an actor's discretion in how it engages in certain conduct is circumscribed, even though it was not obliged to engage in the conduct in the first instance.

Finally, the defendants argue that they cannot be required to grant Smith a Pro-rata Pension because he brought this action under ERISA section 502(a)(3). 29 U.S.C. § 1132(a)(3), rather than ERISA section 502(a)(1)(B), 29

U.S.C. § 1132(a)(1)(B). *See Ream v. Frey*, 107 F.3d 147, 151-53 (3d Cir. 1997). Smith contends, however, that he appropriately did not bring this action under 29 U.S.C. § 1132(a)(1)(B) because that section applies to actions brought "under the terms of the plan" and he acknowledges that the defendants acted consistently with the terms of the plan. Yet in his view they nevertheless breached their fiduciary duties because the plan as written does not comply with ERISA.

Our recent opinion in *Harte v. Bethlehem Steel Corp.*, No. 98-2052, 2000 WL 225896. at *1 (3d Cir. Feb. 29, 2000), supports Smith's position that a fiduciary acting consistently with a plan nevertheless may breach its fiduciary duty. Smith thus proceeded properly in this case under ERISA section 502(a)(3). But we will not linger on the question of whether Smith sued under the wrong subsection of ERISA section 502, as we expect that the defendants now will apply the plan in accordance with the ERISA ten-year vesting requirements. Moreover, we would be reluctant to order benefits granted, a remedy that might be appropriate relief under ERISA section 502(a)(1)(B), as we do not know whether there is any impediment aside from the ten-year vesting requirement to Smith's recovering Pro-rata Pension benefits. For example, Smith may be entitled to a Deferred Pension, and we doubt that he will be entitled to obtain both pensions. Of course, in light of our disposition, we are acting without prejudice to Smith's taking such other steps as may be necessary to recover Pro-rata Pension benefits.

In view of our foregoing conclusions. we will reverse the summary judgment of the district court to the extent that it held the Local 641 plan did not violate ERISA with respect to the statute's ten-year vesting requirement. The Pro-rata Pension requirements violate the vesting requirements by making benefits contingent on obtaining service credits beyond ERISA's permitted forfeiture periods and defendants have a fiduciary obligation to comply with the law.

In addition to arguing that the Local 641 Fund's Pro-rata Pension violated ERISA's vesting provisions. Smith also contends that by reason of his ten and one-half years of service with Eastern Express, he was entitled to a Deferred Pension from the Local 641 Fund plan. The district court found that while this argument may have merit, it concerns the application of the terms of the plan to Smith and not whether the terms violate ERISA. The district court concluded that such a challenge must be brought pursuant to ERISA section 502(a)(1)(B), 29 U.S.C. § 1132(a)(l)(B), dealing with the denial of benefits and not in an action seeking equitable relief to remedy a breach of fiduciary duty under ERISA section 502(a)(3), 29 U.S.C. § 1132(a)(3). We agree with the district court on this point and consequently we will affirm the order for summary judgment to that extent without further discussion and without prejudice to a later action under section 502(a)(1)(B), if that should be appropriate.

III. CONCLUSION

For the reasons set forth above, the order for summary judgment of April 8, 1999, will be reversed in part and affirmed in part. The district court erred when it concluded that the Local 641 Fund plan's 15-year service credit requirement for a Pro-rata Pension did not violate ERISA. Accordingly, to the extent Smith sought to challenge the propriety of the 15-year requirement, this matter will be remanded to the district court for the entry of judgment in favor of Smith and the fashioning of appropriate relief pursuant to ERISA section 502(a)(3), 29 U.S.C. § 1132(a)(3). The decision of the district court will be affirmed, however, to the extent it held that Smith cannot proceed pursuant to ERISA section 502(a)(3), 29 U.S.C. § 1132(a)(3), to assert his rights to a Deferred Pension under the Local 641 Fund plan.

A True Copy:
Teste:

Clerk of the United Slates Court of Appeals
for the Third Circuit

APPENDIX B

UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

99-5293

STANLEY SMITH,

Appellant

v.

ROBERT CONTINI; JOHN BARNES; MARTIN GILLEN; JOHN KROMMENHOEK; RICHARD MULLER; JERRY MCCORMICK; LAWRENCE MCDERMOTT; JOHN DOE, (name being fictitious); TEAMSTERS LOCAL 641 PENSION FUND; PETER VAN LENTEN; ROBERT CIRONE, as Trustee of the Teamsters Local 641 Pension Fund; THOMAS FLANNERY, Trustee of the Teamsters Local 641 Pension Fund

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On Appeal from the United States District court
for the District of New Jersey
(D.C. Civ. No. 97-2692)
District Judge: Honorable William H. Walls

Present: Greenberg, Roth, and Rosenn, *Circuit Judges*

JUDGMENT

This cause came on to be heard on the record from the United States District Court for the District of New Jersey and was argued by counsel on January *25,* 2000.

On consideration whereof. it is now here ordered and adjudged by this Court that the judgment of the said District Court dated April 8. 1999 and entered April 12. 1999, be, and

the same is hereby reversed in part and affirmed in part All of the above in accordance with the opinion of this Court.

ATTEST:

/s/ P. Douglas Sisk
Clerk

Dated: March 9. 2000

APPENDIX C

AMENDED

UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

No: 99-5293

STANLEY SMITH,

Appellant

v.

ROBERT CONTINI; JOHN BARNES; MARTIN GILLEN; JOHN KROMMENHOEK; RICHARD MULLER; JERRY MCCORMICK; LAWRENCE MCDERMOTT; JOHN DOE, (name being fictitious); TEAMSTERS LOCAL 641 PENSION FUND; PETER VAN LENTEN; ROBERT CIRONE, as Trustee of the Teamsters Local 641 Pension Fund; THOMAS FLANNERY, Trustee of the Teamsters Local 641 Pension Fund

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On Appeal from the United States District Court
for the District of New Jersey
(D.C. Civ. No. 97-2692)
District Judge: Honorable William H. Walls

Present: Greenberg, Roth, and Rosenn, *Circuit Judges*

JUDGMENT

This cause came on to be heard on the record from the United States District Court for the District of New Jersey and was argued by counsel on January 25, 2000.

On consideration whereof, it is now here ordered and adjudged by this Court that the judgment of the said District Court dated April 8, 1999 and entered April 12. 1999, be, and

the same is hereby reversed in part and affirmed in part. The District Court erred when it concluded that the Local 641 Fund plan's 15 year service credit requirement for a Pro-rata Pension did not violate ERISA. Accordingly, to the extent Smith sought to challenge the propriety of the 15 year requirement, the matter is remanded to the District Court for the entry of judgment in favor of Smith and the fashioning of appropriate relief pursuant to ERISA section 502(a)(3), 29 U.S.C. Section 1132(a)(3). The decision if the District Court is affirmed to the extent it held Smith cannot proceed pursuant to ERISA section 502(a)(3), 29 U.S.C. Section 1132(a)(3), to assert his rights to a Deferred Pension under Local 641 Fund plan. All of the above in accordance with the opinion of this Court.

ATTEST:

/s/ Marcia M. Waldron
Acting Clerk

Dated: APR. 03, 2000

APPENDIX D

NOT FOR PUBLICATION [Filed Apr. 9 1999]

UNITED STATES DISTRICT COURT
DISTRICT OF NEW JERSEY

Civ. No. 97-2692 (WHW)

STANLEY SMITH,

Plaintiff,

v.

ROBERT CONTINI, JOHN BARNES, RICHARD MULLER, LAWRENCE MCDERMOTT, JOHN DOE (name being fictitious), TEAMSTERS LOCAL 641 PENSION FUND, ROBERT CIRONE, and THOMAS FLANNERY

Defendants.

OPINION

Walls, District Judge

This matter comes before the Court on the motion of plaintiff Stanley Smith for summary judgment on his claims and the motion of defendants Robert Contini, John Barnes, Richard Muller, Lawrence McDermott, Teamsters Local 641 Pension Fund, Robert Cirone, and Thomas Flannery for summary judgment to dismiss plaintiff's complaint. Pursuant to Fed. R. Civ. P. 78, the Court decides this motion without oral argument. Plaintiff's motion for summary judgment is denied. Defendant's motion for summary judgment dismissal of plaintiff"s complaint is granted.

FACTS

Defendant Teamsters Local 641 Pension Fund ("the Local 641 Fund") is a multiemployer employee benefits pension

plan within the meaning of the Employment Retirement Income Security Act ("ERISA"), 29 U.S.C. § 1002(2)(A). The Local 641 Fund had entered into reciprocal agreements with the Local 202 Fund and the Local 816 Fund which were in effect during the time periods relevant to this action. (Compl. ¶¶ 17-18.) Under these reciprocal agreements, the Local 641 Fund agreed to apply service credits earned by employees with the Local 202 and 816 Funds toward service credits earned in the Local 641 Fund. (Id.) Plaintiff worked as a truck-driver for Nassau-Suffolk Frozen Foods, Inc. from May to December, 1966 and earned two quarters of service credits with the Local 202 Fund. (Id. ¶ 19.) He worked as a truck driver for Eastern Express. Inc. in Manhattan from February, 1967 through December, 1973, and earned twenty-six quarters of service credits with the Local 816 Fund. (Id. ¶ 20.) Eastern Express then relocated to Elizabeth, New Jersey and came under the jurisdiction of the Local 641 Fund. (Id. ¶ 21.) Plaintiff continued to work for Eastern Express from January 1974 through May, 1977 and earned sixteen quarters of service credits with the Local 641 Fund. (Id. ¶ 22; App. to Defs.' Br. at A14.) Pursuant to the reciprocal agreements, the Local 641 Fund accepted the twenty-eight quarters of service credits plaintiff had earned with the other funds. (Id. ¶¶ 19-20.) At the end of 1977, plaintiff was forty-nine years old and had earned a total of forty-four quarters or eleven years of service credits with the Local 641 Fund. (Id. ¶¶ 24, 27.) He had earned forty-two quarters or ten and one-half years of those service credits with one employer, Eastern Express.

On November 11, 1993, when plaintiff was sixty-five years of age, he applied for a pension from the Local 641 Fund. (Id. ¶ 28; App. to Defs.' Br. at A, Ex. D-1.) By letter dated June 21, 1994, the Local 641 Fund acknowledged that plaintiff had earned eleven years of service credits, but informed him that he needed fifteen years of service credits before he could receive pension benefits. (Id. ¶ 29.) By letter dated August 1,

1994, plaintiff appealed this decision to the trustees of the Local 641 Fund on the grounds that under ERISA a multiemployer plan may require only ten. not fifteen. years of service before an employee is entitled to pension benefits. (Id. ¶ 30; App. to Defs.' Br. at B, Ex. P1.) Plaintiff's appeal was denied by letter dated September 22, 1994. (Compl. ¶¶ 30-31.) On May 23, 1997, plaintiff brought suit against the Local 641 Fund, the trustees of that fund, and the plan manager for that fund. Plaintiff requests a declaratory judgment that the individual defendants have breached their fiduciary duties by maintaining a fifteen year vesting requirement for the Local 641 Fund, an injunction to require those defendants to bring the fund into compliance with ERISA's maximum ten year vesting requirement, an award of restitution to restore his full pension beginning at age sixty-five with prejudgment interest, and an award of attorney's fees and costs. (Id. § 21.)

Defendants move for summary judgment to dismiss plaintiff's complaint. They argue that the Local 641 Fund's pension plan comports to ERISA's requirements, that Smith has failed to state a cause of action, that Smith is precluded from bringing this case because he has failed to exhaust the internal claims procedure, and that ERISA's minimum vesting standards do not apply to pro-rata pension benefits. Smith moves for summary judgment on his claim. He contends that the Local 641 Fund's fifteen year eligibility requirement violates 29 U.S.C. § 1053(a)(2) and that he is not required to exhaust the internal remedies because he has brought this action to redress a violation of ERISA itself by the Local 641 Fund.

DISCUSSION

A. Summary Judgment Standard

Summary judgment is appropriate where the moving party establishes that "there is no genuine issue of fact and that [it] is entitled to a judgment as a matter of law." Fed. R. Civ. P. 56(c). A factual dispute between the parties will not defeat a

motion for summary judgment unless it is both genuine and material. *See Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 247-48, 106 S. Ct. 2505, 91 L. Ed. 2d 202 (1986). A factual dispute is genuine if a reasonable jury could return a verdict for the non-movant and it is material if, under the substantive law, it would affect the outcome of the suit. *See Anderson*, 477 U.S. at 248. The moving party must show that if the evidentiary material of record were reduced to admissible evidence in court, it would be insufficient to permit the non-moving party to carry its burden of proof. *See Celotex v. Catrett*, 477 U.S. 317, 318, 106 S. Ct. 2548, 91 L. Ed. 2d 265 (1986).

Once the moving party has carried its burden under Rule 56, "its opponent must do more than simply show that there is some metaphysical doubt as to the material facts in question." *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 106 S. Ct. 1348, 89 L. Ed. 2d 538 (1986). The opposing party must set forth specific facts showing a genuine issue for trial and may not rest upon the mere allegations or denials of its pleadings. *See Sound Phillip Ship Building Co. v. Bethlehem Steel Co.*, 533 F.2d 96, 99 (3d Cir. 1976), *cert. denied*, 429 U.S. 860, 97 S.Ct. 161, 50 L.Ed.2d 137 (1976). At the summary judgment stage the court's function is not to weigh the evidence and determine the truth of the matter, but rather to determine whether there is a genuine issue for trial. *See Anderson*, 477 U.S. at 249. In doing so, the court must construe the facts and inferences in the light most favorable to the non-moving party. *See Wahl v. Rexnord. Inc.*, 624 F.2d 1169, 1181 (3d Cir. 1980).

B. Whether Plaintiff Has Standing to Sue under ERISA

1. Whether Plaintiff Must Exhaust the Plan's Internal Remedies Before Bringing this Action

Plaintiff has brought this action under ERISA, 29 U.S.C. § 1132(a)(3), and has asked the Court to enjoin defendants'

fifteen-year vesting requirement, to declare that defendants have breached their fiduciary duty in the maintenance of this requirement, to award him his pension with prejudgment interest, and to grant him costs and attorney's fees. Defendants maintain that ERISA does not provide the type of relief plaintiff has requested. Defendants argue that any recovery granted as a result of an action under 29 U.S.C. § 1132(a)(3) inures to the plan as a whole. not to any individual participant. Furthermore, although ERISA provides for individual recovery under 29 U.S.C. § 1132(a)(l) and (2), an individual may not sue under these provisions until he has exhausted all of the plan's internal administrative remedies, which, according to defendants, plaintiff has not done. Plaintiff asserts that he has exhausted the plan's administrative remedies. He also contends that he need not have exhausted those administrative remedies because his is a suit under § 1132(a)(3), not § 1132(a)(1) nor § 1132(a)(2), and the Court may award him appropriate equitable relief.

Section 1132(a)(3) of 29 U.S.C. allows a civil action to be bought:

> by a participant, beneficiary, or fiduciary (A) to enjoin any act or practice which violates any provision of this subchapter or the terms of the plan, or (B) to obtain other appropriate equitable relief (i) to redress such violations or (ii) to enforce the provisions of this subchapter or the terms of the plan. 29 U.S.C. § 1132(a)(3).

Here. Plaintiff has brought an action under 29 U.S.C. § 1132(a)(3) to redress defendants' alleged violations of ERISA. 29 U.S.C. § 1053. Although a plan participant is required to exhaust the internal administrative remedies of the plan before s/he may sue in federal court to recover benefits under the plan or clarify rights under the plan, that person is not required to do so when s/he sues to redress a violation of

federal rights guaranteed by ERISA. *Zipf v. American Telephone and Telegraph Co.*, 799 F.2d 889, 892-893 (3d Cir. 1986). In *Zipf*, the Third Circuit announced that claims of ERISA statutory violations can be brought in a federal court notwithstanding the internal administrative remedies of a plan. *Zipf*, 799 F.2d at 892. Insofar as Plaintiff has sought equitable relief to bring defendants' pension plan into compliance with ERISA, he may bring an action under 29 U.S.C. § 1132(a)(3) without having exhausted the internal administrative remedies of the plan. Plaintiff's claim for benefits under the pension plan cannot be adjudicated unless or until he has exhausted the internal administrative remedies of the plan. However, because plaintiff has made it abundantly clear that his is not an action under 29 U.S.C. § 1132(a)(1) to recover benefits due to him under the terms of the plan, this Court cannot review the Local 641 Fund's denial of his pension and cannot award plaintiff his pension.

2. Whether Plaintiff Has Exhausted the Plan's Internal Administrative Remedies

Plaintiff maintains that he has exhausted all the internal administrative remedies of the plan. Plaintiff contends that he followed the appeal procedure for the denial of a claim set forth in section 6.04 of the Local 641 pension plan. Section 6.04 provides that "[a] Participant whose application for benefits under this plan has been denied, in whole or in part, is to be provided with adequate notice in writing setting forth the specific reasons for such denial, and shall have the right to appeal the decision by written request filed with the Trustees within 180 days after receipt of such notice." (Compl. Ex. A at 41, § 6.04.) The summary plan description ("SPD") also allows an appeal to be filed no later than 180 days after the claimant has received the notice of the denial. (Compl. Ex. A at 14.) Plaintiff claims he followed the procedure set forth in section 6.04 of the Local 641 pension plan, and his appeal was denied. In a letter dated December 27, 1995. Lawrence

M. McDermott, the Administrator for the Local 641 Fund, acknowledged that the "appeal procedure in this matter has been exhausted." (App. to Defs. Br. at B, Ex. P1.) Defendants argue that after this appeal, plaintiff was required to submit his claim to arbitration pursuant to Article VIII of the Fund's Agreement and Declaration of Trust ("Trust Agreement"). (Br. in Supp. of Defs.' Mot. for Summ. J. at 22; App. to Defs.' Br. at B, Ex. D-1, Art. VIII.) Plaintiff asserts that neither this arbitration requirement nor a reference to the Trust Agreement is anywhere to be found in the Local 641 pension plan or the SPD. Plaintiff contends that because ERISA. 29 U.S.C. § 1022(b) requires that claims review procedures be set forth in full in the SPD, and the SPD here does not mention arbitration, he was not required to arbitrate his claim.

ERISA, 29 U.S.C. § 1022, requires a summary plan description to be furnished to participants in the plan. and it mandates that the SPD include "the remedies available under the plan for the redress of claims which are denied in whole or in part" and "a description of the relevant provisions of any applicable collective bargaining agreement." 29 U.S.C. § 1022 . Here, the SPD set forth an appeal procedure for the redress of a denied claim which did not include arbitration. Moreover, the SPD did not refer to any provision in the Trust Agreement regarding the appeal procedure or arbitration. Here, where the appeal procedure in both the SPD and the plan document consists of a simple written appeal to the trustees, that the Trust Agreement requires arbitration is inconsequential. The plan document and the SPD provide employees with critical information about their plan upon which they may reasonably rely. *See, e.g., Genter v. Acme Sale and Supply Co.*, 776 F.2d 1180, 1185 (3d Cir. 1985) (the "summary plan description must not mislead, misinform, or fail to inform participants and beneficiaries of the Plan") (quoting *Morse v. Stanley*, 732 F.2d 1139, 1147 (2d Cir.1984)). Here, plaintiff has demonstrated that he relied on

the information provided in both the plan document and the SPD because he followed the appeal procedure set forth in those documents. Moreover, defendants informed plaintiff that he had exhausted the appeal procedure in this matter. (App. to Defs.' Br. at B, Ex. P1.) Because the language of the Local 641 pension plan document and of the SPD is controlling, plaintiff has exhausted the internal administrative remedies afforded by the plan.

C. Whether the Vesting Schedule of the Local 641 Fund's Pension Plan Complies with ERISA

As a preliminary matter, defendants argue that the Court must review the plan fiduciary's decision to deny benefits to plaintiff under an arbitrary and capricious standard of review. Defendants' argument is misguided however, because the issue before this Court is not whether the plan fiduciaries wrongfully denied plaintiff his benefits but whether the plan itself violates the statutory requirements of ERISA. Thus, the Court is not engaged in a review of the fiduciaries' denial of benefits to plaintiff. Rather, the Court will examine the Local 641 Fund's pension plan and determine if it complies with ERISA guidelines.

Plaintiff argues that the Local 641 Fund's pension plan requires employees to have fifteen years of service before their rights to a pension are vested and they are eligible to receive a pension. Plaintiff contends that this fifteen year vesting requirement violates 29 U.S.C. § 1053 which required vesting after ten years of service. Specifically, plaintiff claims that the pro rata credit afforded by the Local 641 Fund's pension plan to employees who performed years of service under reciprocating funds is a non-forfeitable benefit under ERISA.

Defendants argue that the pension plan complies with the vesting schedule set forth in 29 U.S.C. § 1053. The pension plan entitles an employee to nonforfeitable pension rights

after ten years of vesting service. Defendants maintain that although plaintiff had eleven years of pension credits. he did not have ten years of vesting service. Defendants contend that plaintiff's four years of service under the Local 641 Fund constitute vesting service while plaintiff's seven years of service under the other funds only apply toward plaintiff's accrued pension credits. Defendants assert that they do not have to treat years of service under another fund with which they have a reciprocal agreement as vesting service. An employee who has performed less than ten years of service with the Local 641 Fund may be eligible for a pro-rata pension. Under the Local 641 Fund's pension plan, employees who earned pension credits with another fund which had a reciprocal agreement with Local 641 could receive a pro-rata pension with a total of less than fifteen pension credits if the other fund provided pensions to employees with less than fifteen pension credits. (Defs.' Br. at 27.) Defendants contend that they are not required by ERISA to offer pro-rata pensions and that ERISA's vesting requirements do not apply to pro-rata pensions. Defendants argue that ERISA, 29 U.S.C. § 1053(b) allows them to disregard an employee's years of service with a reciprocating fund as vesting service because that section includes as vesting service only "an employee's years of service with the employer or employers maintaining the plan." (Defs.' Br. at 24-25.)

Section 1053(a) of U.S.C. requires pension plans to "provide that an employee's right to his normal retirement benefit is nonforfeitable upon the attainment of normal retirement age. . . ." In addition, § 1053(a) requires that pension plans satisfy certain other criteria including a vesting schedule. Before § 1053(a)(2) was amended in 1986, one of the qualifying vesting schedules provided that "an employee who has at least 10 years of service has a nonforfeitable right to 100 percent of his accrued benefit derived from employer

contributions." 29 U.S.C. § 1053(a)(2)(A) (amended 1986).[6] Since 1980, the Local 641 Fund's pension plan has afforded employees vested status and a nonforfeitable right to a pension when they have attained normal pension age and have completed ten years of vesting service. (Defs.' Br. at 17-18; Compl. Ex. B at 43, § 6.08.) An employee who has performed less than ten years of service with the Local 641 Fund but has also completed years of service with a reciprocating fund may be eligible for a pro-rata pension. (Defs.' Br. at 27-28; Compl. Ex. B. at 32, § 3.21.) However, he is not entitled to receive a pension until he has achieved fifteen years of combined service unless the reciprocating fund provides pensions for employees with less than fifteen years of combined service. (Defs.' Br. at 27-28; Compl. Ex. B. at 32, § 3.21.)

Defendants argue that the provisions in the plan regarding pro-rata pensions do not violate the vesting requirement of ERISA because the vesting requirement does not apply to pro-rata pensions. Defendants maintain that the vesting requirements for employees with service from reciprocating funds are not different from those for employees with service performed under the Local 641 Fund. They contend that in both cases only the service performed for the Local 641 Fund constitutes vesting service. Defendants argue that under ERISA, 29 U.S.C. § 1053(b)(1), they may disregard plaintiffs years of service with the reciprocating funds because the statute expressly allows "years of service with an employer during any period for which the employer did not maintain the plan or a predecessor plan" to be disregarded. 29 U.S.C. § 1053(b)(1)(C).

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[6] The 1986 amendments to 29 U.S.C. § 1053(a)(2) are not applicable to this case because of the special rules with regard to plans maintained pursuant to collective bargaining agreements ratified before March 1, 1986. See section 1113(f) of Pub.L. 99-514.

Defendants are correct in their argument that ERISA does not require them to provide pro-rata pensions or reciprocal agreements with other funds. Under 29 U.S.C. § 1053(b)(1), defendants may disregard years of service performed for an employer during a period in which that employer did not maintain a pension plan with the Local 641 Fund or a predecessor plan. The pro-rata provisions in the Local 641 Fund's pension plan do not violate the vesting requirements of ERISA, 29 U.S.C. § 1053(a)(2). Because neither the pro-rata provisions nor the vesting schedule of the Local 641 Fund's pension plan violate ERISA, defendants' motion for summary judgment to dismiss the complaint is granted.

D. Whether All of Plaintiff's Years of Service with Eastern Express Should Be Taken into Account for Vesting Purposes

Plaintiff also argues that the ten and one-half years of service he performed with Eastern Express should be considered for determining his nonforfeitable pension rights. Plaintiff contends that under 29 U.S.C. § 1053(b)(1)(C) none of his ten and one-half years of service with Eastern Express can be disregarded. because during that entire period Eastern Express maintained a pension plan. During the last four years of his service with Eastern Express, it maintained a pension plan with the Local 641 Fund, and before that it maintained a pension with the Local 816 Fund. Plaintiff argues that the pension plan Eastern Express had with the Local 816 Fund constitutes a predecessor plan within the meaning of 29 U.S.C. § 1053(b)(1)(C). Because Eastern Express maintained the Local 641 Fund's pension plan or a predecessor plan during plaintiff's ten and one-half years of service, none of these years of service may be disregarded under 29 U.S.C. § 1053(b)(1)(C). Although plaintiff's argument may have merit, the Court may not consider it at this point because it deals with the application of the terms of the pension plan to plaintiff, not whether the terms of the pension plan violate

ERISA. The court may not consider this argument unless and until plaintiff brings an action under 29 U.S.C. § 1132(a)(l)(B) to challenge his denial of benefits under the Local 641 Fund's pension plan.

CONCLUSION

Defendants' motion for summary judgment to dismiss plaintiff's complaint is granted. Plaintiff's motion for summary judgment on his claims is denied.

SO ORDERED:

/s/ William H. Walls
WILLIAM H. WALLS, U.S.D.J.
April 8, 1999

Appearances:

David Tykulsker
David Tykulsker & Associates
161 Walnut Street
Montclair, NJ 07042
Attorney for Plaintiff Stanley Smith,

Gary A. Carlson
Kroll & Heineman
300 Executive Drive
Suite 010
West Orange, NJ 07052
Attorney for Defendants Robert Contini, John Barnes, Richard Muller, Lawrence McDermott, Teamsters Local 641 Pension Fund, Robert Cirone, and Thomas Flannery.

APPENDIX E

[Filed Apr. 9, 1999]

UNITED STATES DISTRICT COURT
DISTRICT OF NEW JERSEY

Civ. No. 97-2692 (WHW)

STANLEY SMITH,

Plaintiff,

v.

ROBERT CONTINI, JOHN BARNES, RICHARD MULLER, LAWRENCE MCDERMOTT, JOHN DOE (name being fictitious), TEAMSTERS LOCAL 641 PENSION FUND, ROBERT CIRONE, and THOMAS FLANNERY

Defendants.

ORDER

This matter comes before the Court on the motion of plaintiff Stanley Smith for summary judgment on his claims and the motion of defendants Robert Contini, John Barnes, Richard Muller, Lawrence McDermott, Teamsters Local 641 Pension Fund, Robert Cirone, and Thomas Flannery for summary judgment to dismiss plaintiff's complaint. Upon consideration of the submissions of the parties and for the reasons stated in the accompanying opinion,

It is on this 8th day of April, 1999:

ORDERED that plaintiff's motion for summary judgment is denied;

ORDERED that defendant's motion for summary judgment to dismiss plaintiff's complaint is granted.

/s/ William H. Walls
WILLIAM H. WALLS, U.S.D.J.

APPENDIX F

UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

No. 99-5293

STANLEY SMITH,

Appellant

v.

ROBERT CONTINI; JOHN BARNES, JOHN KROMMENHOEK; RICHARD MULLER; JERRY MCCORMICK; LAWERNCE MCDERMOTT, JOHN DOE (naming being fictitious) TEAMSTERS LOCAL 641 PENSION FUND; PETER VAN LENTEN; ROBERT CIRONE, as Trustee of the Teamsters Local 641 Pension Fund; THOMAS FLANNERY, Trustee of the Teamsters Local 641 Pension Fund

---

On Appeal from the United States District Court
for the District of New Jersey
(D.C. Civ. No. 97-2692)

SUR PETITION FOR REHEARING

BEFORE: BECKER, *Chief Judge*, and SLOVITER, MANSMANN, GREENBERG, SCIRICA, NYGAARD, ALITO, ROTH, MCKEE, RENDELL, BARRY, and ROSENN, *Circuit Judges*

The petition for rehearing filed by the appellees, Robert Contini, John Barnes, John Krommenhoek, Richard Muller, Jerry McCormick, Lawrence McDermott, John Doe (name being fictitious), Teamsters Local 641 Pension Fund, Peter Van Lenten, Robert Cirone, as Trustee of Teamsters Local

641 Pension Fund, and Thomas Flannery, Trustee of the Teamsters Local 641 Pension Fund, in the above captioned matter having been submitted to the judges who participated in the decision of this court and to all the other available circuit judges of the court in regular active service, and no judge who concurred in the decision having asked for rehearing, and a majority of the circuit judges of the circuit in regular active service not having voted for rehearing by the court en banc, the petition for rehearing is denied. Judge Rosenn's vote is limited to denying rehearing before the original panel.

BY THE COURT:

/s/ Illegible

Circuit Judge

DATED: Apr. 10, 2000

Supreme Court, U.S.
FILED
AUG 14 2000
CLERK

(2)

No. 00-83

IN THE

Supreme Court of the United States

ROBERT CONTINI; JOHN BARNES; MARTIN GILLEN; JOHN KROMMENHOEK; RICHARD MILLER; JERRY MCCORMICK; LAWRENCE MCDERMOTT; JOHN DOE (name being fictitious); TEAMSTERS LOCAL 641 PENSION FUND; PETER VAN LENTEN; ROBERT CIRONE, as Trustee of the Teamsters Local 641 Pension Fund; THOMAS FLANNERY, Trustee of the Teamsters Local 641 Pension Fund,

Petitioners,

v.

STANLEY SMITH,

Respondent.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Third Circuit

BRIEF IN OPPOSITION

DAVID TYKULSKER, ESQ.*
DAVID TYKULSKER & ASSOCIATES
161 Walnut Street
Montclair, New Jersey 07042
(973) 509-9292

Counsel for Respondent Stanley Smith

* Counsel of Record

WILSON-EPES PRINTING CO., INC. – (202) 789-0096 – WASHINGTON, D. C. 20001

17pp

QUESTIONS PRESENTED

The questions presented by the Petitioners in the Petition ("Pet.") at (i) are incomplete, misleadingly phrased and not faithful to the proceedings below. The precise questions presented for review in this case are the following:

Do the minimum vesting standards set forth in Section 203 of the Employee Retirement Income Security Act of 1974 as amended ("ERISA"), 29 U.S.C. § 1053, apply to a multi-employer pension plan subject to ERISA's requirements when that fund offers a pro rata pension benefit?

If an ERISA-governed pension plan has voluntarily agreed to count as service within its jurisdiction all years of service earned by a participant within the jurisdiction of another such plan, may that pension plan then disregard such service in derogation of its plan documents because such service was rendered to an employer that did not maintain the plan or a predecessor plan?

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REASONS FOR DENYING THE PETITION FOR WRIT OF CERTIORARI

The Petition presents no issue worthy of the Court's attention. Petitioners make no attempt to show that the decision of the Court of Appeals in this case is in conflict with a decision of this Court, any other Court of Appeals, a District Court or a State Court of last resort. *See* Supreme Court Rule 10(a). As demonstrated in Argument I, every court that has considered the matter has found that ERISA's substantive rules, including vesting rules,[1] apply when a multi-employer plan offers pro rata type pensions. Indeed, the Third Circuit's opinion is entirely consistent with *Alessi v. Raybestos-Manhattan, Inc.*, 451 U.S. 504 (1981), this Court's principal opinion interpreting 29 U.S.C. §1053. It is notable that *Alessi* goes unmentioned in the Petition.

In apparent recognition of the inherent weakness of their case for certiorari, petitioners allege that this case poses an important federal question. This contention cannot withstand even minimal scrutiny. In finding that ERISA's vesting schedules govern multi-employer pension plans offering pro rata pensions, the Third Circuit merely applied the plain statutory definitions—an effort that consumed all of one paragraph of the opinion, *see* Pet. App. A at 12a. That application is entirely consistent with the statute's policy and this Court's determination that the vesting schedules of 29 U.S.C. § 1053 schedules are "critical to the ERISA scheme," *see Alessi*, 451 U.S. at 510; *Nachman Corp.*, supra at n.1, 446 U.S. at 363-64 and n.6.

With regard to the "disregard issue", as demonstrated in Argument II, as petitioners did not in fact disregard Smith's service in the Related Pension Funds, there is no reason for

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[1] For ERISA purposes, the terms "nonforfeitable" and "vested" are used synonymously. *See Nachman Corp. v. Pension Benefit Guaranty Corp.*, 446 U.S. 359, 377 (1980).

this Court to take up the hypothetical case that petitioners would present. Even were the record different, the legislative history makes it clear that once a pension fund agrees to count service for purposes of calculating the amount of the benefit to be paid, it must also count such service when it determines eligibility.

Finally, as petitioners never asserted in either the District Court or the Court of Appeals that significant financial consequences would ensue from the reformation of the Local 641 Fund required by the Third Circuit, the record is utterly devoid of any evidence bearing on such an assertion. Not only does such lack of evidence belie the assertion of its importance, but also, this Court should not consider this previously unraised argument for the first time.

STATEMENT PURSUANT TO SUPREME COURT RULE 15(2)

The Local 641 Fund, the Local 202 Fund and the Local 816 Fund are multiemployer defined benefits pension funds within the meaning of 29 U.S.C. § 1002(a)(2) and (37). Prior to the enactment of ERISA, the Local 641 Fund had entered into reciprocal agreements with the Local 202 and the Local 816 Funds whereby "service in the jurisdiction of any of the reciprocating funds is considered service under this Fund for the purpose of determining eligibility for benefits under the [Local 641] Fund." The Local 641 Fund documents explain that these reciprocal agreements provide the basis for provision ~~of a pro~~ rata pension whose "purpose" is explained in the Local 641 Fund Plan as follows:

> *PURPOSE*. Pro-Rata Pensions are provided under this Plan for Employees who would otherwise be ineligible because their years of employment have been divided between Covered Employment and employment covered by another pension plan or whose pensions would

> otherwise be in less than the full amount because of such division of employment.

The Local 641 Fund, in keeping with ERISA, offers other forms of pension for participants who have accrued a minimum of ten years of credits in Covered Employment i.e., with employers contributing to the Local 641 Fund. Hence, a principal purpose of the pro rata pension is to allow a participant who has less than ten years of Covered Employment to combine the Related Pension Credits with the credits from Covered Employment so as to be entitled to a pension. Related Pension Credits are those credits earned in the Related Plans, those multiemployer pension funds who have signed a reciprocal agreement with the Local 641 Fund. In addition to determining eligibility for benefits, Related Pension Credits also count for purposes of benefit accrual. The Local 641 Fund documents unambiguously have a fifteen year "cliff vesting" schedule[2] for pro rata pensions—that is, a participant is required to earn fifteen years of Combined Pension Credits before any pro rata pension is paid. Neither of these reciprocal agreements were revised following the passage of ERISA in 1974, nor was the Local 641 Fund Plan amended to reduce the eligibility period to less than fifteen years.

After he had attained the normal retirement age of sixty-five, on November 11, 1993, Smith applied to the Local 641 Fund for a pro rata pension. As petitioners concede in their petition, Pet. at 4, the Local 641 Fund explicitly found that Smith had earned one-half year of Related Pension Credits in

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[2] An "all or nothing" vesting schedule "under which the benefits an employee accrued with each year of service did not vest at all until he completed ten years of service, at which point they fully vested" is referred to as "cliff" vesting. *See Freeman v. Central States, Southeast And Southwest Areas Pension Fund*, 32 F.3d 90, 93 n.8 (4th Cir. 1994); *Blessit v. Retirement Plan For Employees Of Dixie Engine Co.*, 848 F.2d 1164, 1177 (8th Cir. 1988) (*en banc*).

the Local 202 Fund, and six and one-half years of Related Pension Credits in the Local 816 Fund for a total of seven years of Related Pension Credits for vesting purposes. It also found that Smith had four years of Covered Employment, which it added to the Related Pension Credits to find that Smith had a total of eleven years of Combined Pension Credits. By making this finding, which has never been retracted at any point during the litigation, the Local 641 Fund explicitly *credited rather than disregarded for vesting or eligibility determination purposes*, Smith's service within the jurisdiction of the Local 202 and Local 816 Funds.

Instead of disregarding Smith's Related Service, the Local 641 Fund in fact denied Smith a pro rata pension solely "(b)ecause Smith had earned less than the 15 years of combined pension credits required [by the Local 641 Fund Plan] for a pro rata pension." Pet. at 4. Smith timely appealed the Local 641 Fund's initial denial of his request for a pro rata pension, specifically raising to the Trustees his claim that ERISA, particularly 29 U.S.C. § 1053, allowed no more than a ten-year "cliff vesting" schedule. In response, the Local 641 Fund claimed that ERISA "is not applicable. Eligibility for pension benefits from this fund is based on the plan rules and regulations of Teamsters Local 641 Pension Fund." Further correspondence between the Local 641 Fund and Smith's attorney confirmed the Fund's position.

At no point in their pleadings, during discovery or at summary judgment did any of the petitioners assert that the actuarial soundness of the Local 641 Fund would be placed at risk if the maximum cliff vesting schedule were reduced from fifteen to ten years, nor did they allege that any level of benefits would not be paid, nor that they were realistically contemplating benefit increases that would be jeopardized by the requested reformation of the Plan. As a result, no discovery was taken on any such point or concern, and hence there is no evidence of record concerning the effect, if any,

that reformation of the Plan would have on the Local 641 Fund.

ARGUMENT

I. THE APPLICATION OF ERISA'S VESTING REQUIREMENTS TO MULTIEMPLOYER PENSION PLANS OFFERING PRO RATA RETIREMENT BENEFITS IS ENTIRELY CONSISTENT WITH THE LANGUAGE, POLICY AND PREVIOUS CONSTRUCTION OF 29 U.S.C. § 1053(a)

In seeking certiorari, petitioners' first question asks this Court to declare that ERISA's carefully crafted vesting schedules cannot be applied to pension plans that offer one particular type of pension benefit, *viz* pro rata pensions. Petitioners offer no basis in either the statutory language or policy for such an extraordinary exception to a central provision of this "comprehensive and reticulated statute". *See Nachman Corp., supra,* 446 U.S. at 361.

Petitioner's position simply cannot be squared with the definitions provided in the statute. 29 U.S.C. § 1003(a) states that ERISA applies to any "employee pension benefit plan." There is no question that the Local 641 Fund is an "employee pension benefit plan" within the meaning of 29 U.S.C. § 1002(2), and hence, an "employee pension benefit plan" within the meaning of 29 U.S.C. § 1002(3). Nor can it be doubted that if the Local 641 Fund provided only pro rata pensions, it would still qualify as an "employee pension benefit plan" as such a plan would still "provide() retirement income to employees", meeting the disjunctive tests for plan status under 29 U.S.C. § 1002(2). Moreover, the Local 641 Fund's pro rata pension benefit is a "benefit under the plan commencing at the normal retirement age", thereby qualifying as a "normal retirement benefit" as defined in 29 U.S.C. § 1002(22). As to each of these points, the petitioners have

never argued to the contrary, and any such argument at this late stage is waived.

Given these definitions, there can be no doubt that ERISA's vesting provisions, 29 U.S.C. § 1053(a), apply to the Local 641 Fund's pro rata pension benefit. The statute requires that "(e)ach pension plan shall provide that an employee's right to his normal retirement benefit is nonforfeitable upon the attainment of normal retirement age . . ." and that the plan's meet one of several vesting schedules. There can be no legitimate question that "shall provide" makes this provision mandatory on the Local 641 Fund when, as demonstrated directly above, it has made the decision to offer participants a pro rata pension.

Establishment of fair vesting schedules was a major motivation for enacting ERISA. Congress found "that despite the enormous growth in [employee benefit] plans many employees with long years of employment are losing anticipated retirement benefits owing to the lack of vesting provisions in such plans. . ." 29 U.S.C. § 1001(a). As this Court found, "ERISA was designed to prescribe minimum vesting and accrual standards in response to such problems." *See Alessi*, 451 U.S. at 510 n.5. Congress responded to this finding by explicitly declaring it to "be the policy of this Act to protect . . . the interests of participants and their beneficiaries by improving the equitable character and the soundness of such plans by requiring them to vest the accrued benefits of employees with significant periods of service . . ." 29 U.S.C. § 1001(c). For purposes of this litigation, the "significant period of service" that Congress determined was necessary for a cliff vesting scheme was ten years, *see* 29 U.S.C. § 1053(a)(2)(A), although as petitioners point out, Pet. at 2 n.1, Congress subsequently reduced that period to five years.

As this Court noted, "Section 203(a) is a central provision in ERISA. It requires generally that a plan treat an

employee's benefits, to the extent they have vested by virtue of his having fulfilled age and length of service requirements no greater than those specified in § 203(a)(2), as not subject to forfeiture. A provision in a plan which purports to sanction forfeiture of vested benefits for any reason, other than one listed in subsection (a)(3), would violate this section . . ." *See Nachman Corp.*, 446 U.S. at 366 n.10. In reforming the Plan of the Local 641 Fund to reduce the fifteen year cliff vesting provision for pro rata pensions to the statutory ten years, the Third Circuit simply followed *Nachman*. Pursuant to the relevant collective bargaining agreement, Nachman Corp. had established a pension plan that offered several different types of pension benefits. For some of these benefits, including a normal pension, a ten-year cliff vesting schedule was mandated; for at least one other type of benefit, fifteen years' service was required to make the benefit non-forfeitable. While noting that the pension plan had been terminated one day prior to ERISA's effective date, this Court opined that "(t)he 15-year vesting provisions would not have complied with the minimum vesting standards in Title I of ERISA. . ." 446 U.S. at 363-4 and n. 6. The Third Circuit held no more in this case.

Not only is the decision below entirely in keeping with this Court's teaching, there is simply no precedent that pro rata pension benefits are exempt from the various ERISA substantive requirements. Rather, every Court that has considered such benefits has found that the applicable ERISA substantive standards apply. *See, e.g., Tanzillo v. Local Union 617, International Brotherhood Of Teamsters*, 769 F.2d 140 (3d Cir. 1985) (ERISA explicitly deemed to apply, although pre-ERISA break-in-service rules held applicable to plaintiff's claim for pro rata pension); *Hoover v. Cumberland, Maryland Area Teamsters Pension Fund*, 756 F.2d 977, 981 (3d Cir. 1985) (ERISA benefit accrual rules held applicable to pro rata type pension); *Jenkins v. Local 705 International*

Brotherhood Of Teamsters Pension Plan, 713 F.2d 247 (7th Cir. 1983) (ERISA limitations provisions govern claims for pro rata pension benefit); *Kagarise v. Cumberland, Maryland Area Teamsters Pension Fund*, 661 F.2d 19 (3d Cir. 1981) (ERISA governs standards for judicial review of calculation of pro rata pension benefits); *Phillips v. Teamsters Local 639 Employers Health & Pension Trust*, 79 F.Supp.2d 847 (N.D. Ohio 2000) (ERISA governs review of Trustees calculation of pro rata pension benefit); *Bianco v. Board of Trustees of Local 816 Labor And Management Pension Trust Fund*, 494 F.Supp. 206 (E.D.N.Y. 1980) (ERISA break-in-service rules held applicable to claim for pro rata pension); *Helms v. Local 705, Int'l Brotherhood Of Teamsters Pension Plan*, 1999 WL 965230 (N.D.Ill. Sept. 30, 1999) (ERISA required vesting schedule held applicable to pro rata-type pension). Ten year vesting requirements for pro rata pensions are hardly unknown. *See Manhattan Eye Ear & Throat Hospital v. NLRB*, 942 F.2d 151, 158 (2d Cir. 1991).

Further, petitioners' suggestion that pro rata pensions be exempt from ERISA's vesting requirements cannot be reasonably cabined and necessarily leads to absurdity. If ERISA's vesting schedules do not apply to the Local 641 Fund's pro rata pension, then petitioners would be justified in maintaining not just a fifteen-year cliff vesting schedule, but equally well one of twenty-five, thirty-five or even seventy-five years. Indeed, no vesting schedule at all could be required, allowing such accrued benefits to be forfeited at whim. However, as demonstrated above, such overly long vesting schedules were precisely the evil that Congress meant to redress in enacting vesting requirements. Petitioners' first question asks this Court to sanction an absurd result. "(I)nterpretations of a statute which would produce absurd results are to be avoided if alternative interpretations consistent with the legislative purpose are available." *See*

Griffin v. Oceanic Contractors, Inc., 454 U.S. 564, 575 (1982) (citations omitted).

The Third Circuit's holding that ERISA's vesting schedules must be applied to pension funds offering pro rata pensions is consistent with this Court's decision in two major decisions, the clear language of the statute, all available precedent and ERISA's explicit policy to require appropriate vesting. There is no need to waste this Court's valuable resources by returning to such well-plowed ground.

II. THE COURT BELOW PROPERLY FOUND THAT 29 U.S.C. § 1053(B)(1)(C) DID NOT ALLOW PETITIONERS TO DISREGARD SERVICE FOR VESTING PURPOSES THAT THEY THEMSELVES HAD COUNTED FOR BOTH VESTING AND ACCRUAL BENEFIT PURPOSES

Petitioners' second question urges this Court to find that they could "disregard" Smith's Related Service in the Local 202 and the Local 816 Funds because of the "may disregard" language of 29 U.S.C. § 1053(B)(1)(C). To present a case or controversy sufficient to merit this Court's attention, petitioners would need to adduce some evidence that they did in fact disregard this service when Smith applied for his pro rata pension. However, this record could not be clearer that petitioners did not in fact disregard Smith's Related Service. At every level of consideration of Smith's claim, petitioners have in fact credited Smith with eleven years of credits for vesting purposes i.e., Smith's six and one-half years of service in the Local 816 Fund and one-half year of service in the Local 202 Fund were in fact credited to him along with his four years of service in the Local 641 Fund. Smith was not denied the pro rata pension because he had only four years of service as a result of disregarding his service in the Local 816 and Local 202 Funds, but rather because the plan documents

required fifteen years of Combined Service and Smith had but eleven. The record is thus clear that throughout the course of this litigation, petitioners did not in fact disregard Smith's seven years of Related Service. This Court has no good reason to allow petitioners to press what is in essence a hypothetical case unrelated to their actual conduct in this matter.

Petitioners sought to escape from the plain meaning of their admissions by urging that they were simply counting the Related Service for purposes of benefit accrual, not for vesting purposes. But once petitioners admit that the Related Service "counts" towards determining the amount of the benefit to be paid, Congress made clear that petitioners must count the Related Service for computing whether the benefit vests.

> *Service credited for vesting purposes*
>
> Generally, under the conference substitute, once an employee becomes eligible to participate in a pension plan, all his years of service with an employer (including preparticipation service, and service performed before the effective date of the Act) are to be taken into account for purposes of determining his place on the vesting schedule. However, the plan may ignore periods for which the employee declined to make mandatory contributions, and periods for which the employer did not maintain the plan or a predecessor plan, as defined in Treasury regulations (*i.e. if the plan provides past service credits for purposes of benefit accrual, it must also provide past service credits for purposes of participation and vesting*).

Conf. Report on P.L. 93-406, *as reprinted in* 1974 U.S. Code.Cong & Ad. News at p. 5050 (emphasis added).

In sum, there is no need for this Court to take up the hypothetical question that petitioners have presented.

III. AS PETITIONERS NEVER RAISED IN EITHER THE DISTRICT OR THE CIRCUIT COURT THE ISSUE OF THE FINANCIAL IMPACT THAT REFORMATION TO CONFORM WITH 29 § U.S.C. 1053(a)(2)(A) WOULD HAVE ON THE LOCAL 641 FUND, THIS COURT SHOULD NOT TAKE UP SUCH A NEWLY RAISED CLAIM

Petitioners urge this Court to take up this matter as sufficiently important because the Third Circuit's holding will cost the Local 641 Fund money. While Smith agrees that the Local 641 Fund will likely incur some additional financial liability, the same can be said about nearly any unsuccessful litigant, even in the most banal, garden-variety tort case, and hardly renders the instant matter important enough for this Court to expend its resources in consideration thereof.

Petitioners do not spell out for this Court what this impliedly catastrophic sum would be for the very simple reason that the record contains no evidence whatsoever on this point, and therefore furnishes no basis for appraising the claim. This lack of record evidence is due entirely to the failure of petitioners to have raised their implicit claim of financial catastrophe or actuarial unsoundness in either the District Court or the Circuit Court. On this record, petitioners' claim, that this ruling "will ultimately impact upon other participants, because the plans will be unable to increase benefits", *see* Pet. at 7, is the rankest speculation. Such an argument should not for the first time be presented in the Petition.

CONCLUSION

For all of the foregoing reasons, Respondent Stanley Smith respectfully requests that this Honorable Court deny the Petition for a writ of certiorari.

Respectfully Submitted,

DAVID TYKULSKER, ESQ.*
DAVID TYKULSKER & ASSOCIATES
161 Walnut Street
Montclair, New Jersey 07042
(973) 509-9292

Counsel for Respondent
Stanley Smith

* Counsel of Record